

## Message Text

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SUBJECT: U.S. FIRM EXPERIENCES SETBACK IN MAJOR NEGOTIATIONS  
WITH SOVIETS

1. SUMMARY: ABBOTT LABORATORIES HAS RECENTLY EXPERIENCED A REVERSAL IN ITS ONGOING TALKS WITH SOVIET FTO TEKHNOPROMIMPORT TO SUPPLY EQUIPMENT AND TECHNOLOGY WORTH DOLLARS 33 MILLION FOR SOVIET PLANT TO PRODUCE BABY FORMULA. APPARENTLY TALKS ON PROJECT HAD BEEN GOING FORWARD SERIOUSLY OVER PAST TWO YEARS AND ABBOTT LABS PRESIDENT LEDDER FELT CONTRACT WOULD BE SEWN UP ON RECENT TRIP TO MOSCOW. SOVIETS, HOWEVER, MADE "RIDICULOUSLY LOW" LAST-MINUTE, COUNTER-OFFER ON PRICE WHICH LEDDER WAS UNABLE CONSIDER. HE THEREFORE RETURNED TO U.S. WITHOUT CONCLUDING DEAL, UNHAPPY OVER WAY IN WHICH HE FELT ABBOTT LABS HAD BEEN STRUNG ALONG BY SOVIETS. WE SPECULATE THAT DIFFICULTIES MAY HAVE ARISEN BECAUSE OF TWIN-PRONGED PROBLEMS OF HARD-CURRENCY SHORTAGES AND LIKELY SHIFTS IN SOVIET PURCHASING PRIORITIES AWAY FROM CONSUMER RELATED PROJECTS STEMMING THEREFROM.  
END SUMMARY.

2. MR. EDWARD LEDDER, PRESIDENT OF ABBOTT LABORATORIES, INC. (NORTH CHICAGO, ILLINOIS) CALLED AT COMMERCIAL OFFICE RECENTLY AND BRIEFLY REVIEWED STATUS OF CURRENT NEGOTIATIONS BETWEEN ABBOTT LABS AND FTO TEKHNOPROMIMPORT TO SUPPLY SOVIETS WITH TECHNOLOGY AND EQUIPMENT FOR PRODUCTION OF SIMILAC INFANT FEED-  
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ING FORMULA. SOVIETS APPARENTLY BECAME FIRST INTERESTED IN

SIMILAC BECAUSE IT IS STORABLE OVER LONG PERIODS IN POWDER OR LIQUID FORM. LEDDER NOTED THAT AFTER A SEVERAL-YEAR PERIOD OF WHAT APPEARED TO BE STEADILY RISING INTEREST ON PART OF SOVIET MINISTRY OF HEALTH AND MINISTRY OF FOOD AND DAIRY, YEARS WHICH INVOLVED INTENSIVE PROMOTION BY ABBOTT LABS OF ITS PRODUCTS AND PRODUCTION TECHNIQUES TO U.S., SEMINARS ORGANIZED BY ABBOTT LABS, BOTH IN USSR AND IN U.S., AND MUCH EXECUTIVE TRAVEL TIME (HIS OWN INCLUDED), SOVIETS ARE NOW BALKING SEVERELY OVER PRICE AND TERMS OF PAYMENT.

3. ACCORDING TO LEDDER, ABBOTT LABS BEGAN SERIOUSLY TOUTING ITS SIMILAC BABY FORMULA PRODUCT TO SOVIETS SOME FIVE YEARS AGO. AT THAT TIME, SOVIETS WERE LOOKING FOR A TECHNIQUE TO IMPROVE SHELF-LIFE OF DOMESTIC INFANT FEEDING FORMULAS WHICH EVEN TODAY, LEDDER SAID, ARE NO MORE THAN EIGHT MONTHS. IN COMPARISON, LEDDER CLAIMED THAT SIMILAC IN CANS MAY BE STORED SAFELY FOR FIVE YEARS AND IN SOON-TO-BE-MARKETED CARTONS FOR THREE YEARS. TWO YEARS AGO, ACCORDING TO LEDDER, ABBOTT BEGAN AN INTENSIVE EFFORT TO CONVINCE SOVIETS OF EFFICACY OF ITS PRODUCTION TECHNIQUES CULMINATING IN A CORPORATE DECISION MADE AT SOVIET REQUEST TWELVE MONTHS AGO TO DRAW UP A MASSIVE ENGINEERING STUDY FOR CONSTRUCTION OF TURN-KEY PLANT (WITH SOVIET CONSTRUCTION OF BASIS PLANT SUPERSTRUCTURE, ETC.) AT TOTAL COST OF NEARLY ONE-HALF MILLION DOLLARS. LEDDER SAID THAT FMC WAS TO HAVE BEEN INVOLVED IN DEAL AS EQUIPMENT SUB-CONTRACTOR, ALONG WITH U.S. FIRM, MALLOTT. TOTAL PRICE TAG PUT ON PROJECT BY ABBOTT LABS WAS DOLLARS 33 MILLION, BROKEN DOWN AS FOLLOWS: DOLLARS 23 MILLION FOR EQUIPMENT, AND DOLLARS 10 MILLION FOR LICENSED TECHNOLOGY, TRAINING OF PLANT PERSONNEL, MANAGERIAL SOFTWARE, ETC.

4. TO LEDDER'S CHAGRIN, WHEN HE ARRIVED IN MOSCOW IN LATE AUG. FOR WHAT HE THOUGHT WOULD BE FINAL NEGOTIATING SESSION AND, HOPEFULLY A CONTRACT SIGNING CEREMONY, HE FOUND LAST-MINUTE SOVIET COUNTER-OFFER COMPLETELY UNREALISTIC AND SEEMINGLY WITHOUT GIVE. ON TECHNOLOGY, SOVIETS OFFERED DOLLARS 2.5 MILLION (25 PERCENT OF ASKING PRICE) AND ON EQUIPMENT SOVIETS WOULD PAY DOLLARS 14.5 MILLION (APPROX. 65 PERCENT OF ABBOTT FIGURE), FOR TOTAL OF AROUND DOLLARS 17 MILLION (JUST OVER 50 PERCENT OF QUOTED PRICE). LIMITED OFFICIAL USE

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5. LEDDER WAS OPEN IN EXPRESSING DISCOURAGEMENT THAT SOVIETS HAD LED ABBOTT LABS ALONG FOR SUCH AN EXTENDED PERIOD OF TIME AND AT SUCH EXPENSE ONLY TO HAVE FINAL CONTRACT NEGOTIATIONS STALL OUT AT LAST MOMENT OVER A COMPLETELY UNBRIDGEABLE PRICE GAP. LEDDER NOTED THAT HE HAD MADE FINAL GESTURE OF COMING DOWN TO DOLLARS 8.5 MILLION ON TECHNOLOGY, BUT COULD DO NOTHING ON EQUIPMENT, AND WAS RETURNING TO U.S. WITHIN NEXT FEW DAYS

WITHOUT ANY HOPE OF AN EARLY CONTRACT SETTLEMENT, IF EVER.

6. COMMENT: WHEN ASKED WHAT ROLE HE THOUGHT SOVIET HARD CURRENCY SHORTAGE HAD PLAYED IN CONTRACT SNAGS, LEDDER SAID THAT HE HAD BEEN ON RECEIVING END OF INCESSANT CAMPAIGN WAGED BY SOVIET OFFICIALS AT ALL LEVELS TO CONVINCE HIM THAT SHORTAGE OF MONEY (PRESUMABLY CONVERTIBLE CURRENCIES) IN HANDS OF MINISTRIES WAS REACHING CRITICAL PROPORTIONS RIGHT NOW. NOR WERE THESE OFFICIALS OUTWARDLY SWAYED BY LEDDER'S ARGUMENTS CONCERNING FUTURE SAVINGS MADE POSSIBLE THROUGH INSTALLATION OF SIMILAC FACILITIES, IN VIEW OF ITS LONG SHELF-LIFE. WE CAN ONLY SPECULATE ABOUT REASONS FOR SOVIETS'S ALLEGED STIFFENING ON TERMS OF ABBOT LAB'S PROPOSAL WHICH INCLUDED, WE UNDERSTAND, GENEROUS PROVISIONS BY ABBOTT FOR SHARING OF NEWLY-DEVELOPED TECHNOLOGY WITH SOVIETS IN FUTURE, BUT IT SEEMS FAIRLY CERTAIN THAT ABBOTT IS CAUGHT NOT ONLY IN SOVIET HARD CURRENCY SQUEEZE BUT ALSO, PERHAPS, IN A SHIFT OF PRIORITIES AWAY FROM CONSUMER-ORIENTED INVESTMENT. WE WILL BE WATCHING THIS AND SIMILAR DEALS CLOSELY FOR FURTHER INDICATIONS OF SHIFTS IN SOVIET FOREIGN BUYING POLICY.

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